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U.S. Examines Bitcoin's Ties With Shuttered Silk Road

By Christopher M. Matthews

U.S. authorities have opened a new front in their investigation into bitcoin exchanges and other businesses that deal in the online currency, examining possible ties between the firms and the online drug bazaar Silk Road, according to people familiar with the matter.

The new focus of the investigation is the latest indication of how the shuttered online drug market has become linked to bitcoin, tainting the currency with associations of shady activity as its advocates stress to regulators its legitimacy. It comes after prosecutors in January criminally charged the owner of one bitcoin exchange over alleged ties to Silk Road.

One of the people familiar with the matter said the investigation was at an early stage, and conclusions hadn't been reached as to whether the exchanges were connected with Silk Road.

Several bitcoin exchanges received subpoenas from Manhattan federal prosecutors this winter, including Tokyo-based Mt. Gox, once the world's most popular bitcoin exchange, according to people familiar with the matter. It wasn't clear which other bitcoin businesses have received subpoenas.

The subpoenas to Mt. Gox demanded customer-transaction logs and materials related to solicitation of investors. But prosecutors and Federal Bureau of Investigation agents also are examining whether the exchange and others like it may have processed transactions connected to Silk Road, the people said. Attorneys for Mt. Gox didn't respond to requests for comment.

Mt. Gox suspended trading on Feb. 25 and announced the disappearance of 850,000 bitcoins—about 7% of the world's total—worth more than \$470 million at the time. The exchange filed for Chapter 15 bankruptcy protection in Texas in March in a bid to stop customers from targeting the cash it holds in U.S. bank accounts.

Mt. Gox's demise amplified authorities' concerns about the stability of bitcoin, which isn't backed by any central bank.

The shadow of Silk Road, where users could anonymously purchase everything from narcotics to forged

passports, long has hung over bitcoin, the only form of currency Silk Road accepted.

Exchanging other currencies into bitcoin with the knowledge that the funds would be used for illegal transactions could violate money-laundering laws. Even without such direct knowledge, financial institutions are required under U.S. bank regulations to maintain robust internal controls to prevent money laundering by customers.

Prosecutors shut down Silk Road last year and charged its alleged founder, Ross Ulbricht, with several counts of conspiracy and other charges. He has pleaded not guilty and denied being Silk Road's founder. A trial is scheduled for November in federal court in Manhattan. A lawyer for Mr. Ulbricht declined this week to comment.

Charles Shrem, a bitcoin evangelist and businessman, was criminally charged in January with money laundering at his company, BitInstant, which like Mt. Gox swapped dollars for bitcoin and collected a fee on the transactions.

Prosecutors alleged he conspired to help customers of Silk Road convert dollars into bitcoin to use on the market.

Emails Mr. Shrem sent furthered suspicions about connections his company may have had with Silk Road, a person briefed on the investigation said.

In a February 2012 email cited by prosecutors, Mr. Shrem wrote "wow, Silk Road actually works," explaining he had just received a shipment of marijuana brownies.

Mr. Shrem and his alleged accomplice pleaded not guilty last month in federal court in Manhattan. A trial is scheduled for September.

"He's cooperated with law-enforcement agencies in the past, and he looks forward to getting this case behind him," said Marc Agnifilo, a lawyer for Mr. Shrem.

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